

ORIGINAL



LINDA LINGLE
GOVERNOR

JAMES R. AIONA, JR.
LT. GOVERNOR

LAWRENCE M. REIFURTH
DIRECTOR

CATHERINE P. AWAKUNI
EXECUTIVE DIRECTOR

STATE OF HAWAII
DIVISION OF CONSUMER ADVOCACY
DEPARTMENT OF COMMERCE AND CONSUMER AFFAIRS
335 MERCHANT STREET, ROOM 328
P.O. Box 541
HONOLULU, HAWAII 96809
Phone Number: 586-2800
Fax Number: 586-2780
www.hawaii.gov/dcca/dca

July 15, 2009

FILED
2009 JUL 15 P 3:19
PUBLIC UTILITIES
COMMISSION

The Honorable Chairman and Members of
the Hawaii Public Utilities Commission
Kekuanaoa Building
465 South King Street, 1st Floor
Honolulu, Hawaii 96813

Dear Commissioners:

RE: Docket No. 2008-0083 -- Application of Hawaiian Electric Company, Inc.
for Approval of Rate Increases and Revised Rate Schedules and Rules.
The Consumer Advocate's comments on the revised schedules resulting
from the Interim Decision and Order filed on July 2, 2009.

The Hawaii Public Utilities Commission ("Commission") filed its Interim Decision and Order in this proceeding on July 2, 2009 ("Interim D&O") that, while granting interim rate relief, required Hawaiian Electric Company, Inc. ("HECO") to file revised schedules with the Commission that excluded certain costs identified in the Interim D&O. The Commission also allowed the Division of Consumer Advocacy, Department of Commerce and Consumer Affairs ("Consumer Advocate") and the Department of Navy on behalf of the Department of Defense ("DOD") to file comments on HECO's revised schedules within five days of the date of HECO's filing. HECO filed the required revised schedules on July 8, 2009 (i.e., the "July 8th Filing").

The Consumer Advocate has had an opportunity to review the revised schedules and related supporting documents as well as discuss certain questions on the revised schedules with HECO. As a result of that review, the Consumer Advocate hereby informs the Commission that, based on the analysis conducted in the time available, the Consumer Advocate believes that HECO's proposed adjustments were conservatively prepared, views the revised schedules as being in general compliance with the Commission's Interim D&O and does not have any objections to HECO's filing.

The Consumer Advocate would like to add, however, that while HECO's revised schedules appear to generally comply with the Commission's directives, the intent of the Interim D&O may be subject to interpretation. Some reasonable dispute may exist as to the level and scope of Hawaii Clean Energy Initiative ("HCEI") related costs that should be included in or excluded from the interim relief to be granted by the Commission. Briefly, the Consumer Advocate notes that the Commission's directions in the letter filed on April 6, 2009 requires the exclusion of "any mechanisms or expenses related to programs or applications that have not been approved by the [C]ommission (e.g., Decoupling, Renewable Energy Infrastructure Program, Solar Saver Pilot Program amendments, Advanced Metering Infrastructure Program)." In section II of the Commission's Interim D&O, the Commission identifies certain costs that should be excluded from the amount that will support any interim increase. Those certain costs are discussed on pages 7 through 9 of the Interim D&O.

In its analysis, the Consumer Advocate notes that there are some costs that appear to be related to HCEI, but based on discussions with HECO, these costs may be representative of ongoing costs that are related to HCEI.¹ The additional costs that remain in the revised revenue requirements are identified in Attachment 1 to this letter. In direct testimony, the Consumer Advocate identified \$5,006,000 of costs related to HCEI implementation activities (see column E of Attachment 1).² As column F of Attachment 1 to this letter reflects, \$3,653,000 were removed as a result of settlement between the parties. This leaves approximately \$1,491,000 of costs allowed by the settlement and remaining in the revised revenue requirements (see column G of Attachment 1 to the letter). Of the \$1,491,000, these costs have been broken down between three categories: 1) costs of obtaining approval; 2) consulting and outside services; and 3) lease costs. Attachment 1 to this letter provides the appropriate references and supporting citations to facilitate review and identification of these amounts.

The Consumer Advocate believes that HECO has been fairly conservative in its quantification of adjustments to the amount of interim relief, including the identification of cost types and the level of costs associated with HCEI. However, the Consumer Advocate is not certain whether the Commission meant to exclude only incremental HCEI costs from the amount of interim relief or intended the exclusion of all costs related to programs or initiatives associated with the HCEI Agreement. As such, the Consumer Advocate has identified certain additional costs to facilitate the Commission's determination, if, in fact, the Commission intended that all HCEI related costs are to be

¹ These ongoing types of costs are purported to be different since the costs identified by HECO as HCEI related costs in its revised schedules are those costs that would not have been incurred but for the HCEI Agreement and/or are not related to the "Big Wind" project. See Exhibit 3, pages 2 and 6 of HECO's July 8th Filing.

² On page 19 of Exhibit 1 of the Stipulated Settlement, total costs of \$4,914,000 were originally identified. The difference between the \$4,914,000 and the \$5,006,000 is the cost associated with the Feed-In Tariff Outside Services identified on line 11 of Attachment 1 to this letter.

The Honorable Chairman and
Members of the Commission
Page 3
July 15, 2009

excluded from the amount of interim rate relief. If all costs, including those costs not associated with the Big Wind project, were meant to be excluded, Attachment 1 to this letter should assist the Commission's decision on this matter.

Sincerely yours,

A handwritten signature in black ink, appearing to read "Catherine P. Awakuni". The signature is fluid and cursive, with the first name "Catherine" being more prominent.

Catherine P. Awakuni
Executive Director

CPA:dl
Enclosure

c: Darcy Endo-Omoto
Dean K. Matsuura
Thomas W. Williams, Jr., Esq.
Peter Y. Kikuta, Esq.
Damon L. Schmidt, Esq.
Dr. Kay Davoodi
James N. McCormick, Esq.

HAWAIIAN ELECTRIC COMPANY, INC.
Docket No. 2008-0083
HCEI-Related Costs Per Settlement Agreement

Line No	CA Schedule	Description	Reference	CA Adjustments Per Direct Testimony			Removed By Settlement	Allowed By Settlement			
				Costs for Obtaining Approval	Costs for R&D Studies	Total Cost		Total Allowed	Costs for Obtaining Approval	Consulting & Outside Svc Costs	Lease Costs
		(A)	(B)	(C)	(D)	(E)	(F)	(G)	(H)	(I)	(J)
1	C-4	HCEI Implementation Studies (aka "Big Wind Studies")		\$ -	\$ (2,220)	\$ (2,220)	\$ (2,220)	\$ -	\$ -	\$ -	\$ -
2	C-4	PV Host Program	A/C 546 (i)	(200)	-	(200)	(120)	80	80		
3	C-4	Biofuel Agriculture Crop Research Phase 3	A/C 549 (a)(b)	-	(50)	(50)	-	50		50	
4	C-4	Biofuel Co-Firing Project Outside Services	A/C 549 (a)(c)	-	(649)	(649)	-	649		649	
5	C-4	Oahu Electric System Analysis	A/C 930.2 (a)	-	(677)	(677)	(677)	-	-	-	-
6		Total for Schedule C-4		(200)	(3,596)	(3,796)	(3,017)	779	80	699	-
7	C-20	AMI T&D Outside Services	A/C 587 (d)(e)	(507)	-	(507)	(254)	253	253		
8	C-20	AMI R&D	A/C 930.2 (d)(f)	-	(611)	(611)	(244)	367		244	123
9		Total for Schedule C-20		(507)	(611)	(1,118)	(498)	620	253	244	123
10		Total Per Settlement Agreement		(707)	(4,207)	(4,914)	(3,515)	1,399	333	943	123
11	C-23	Feed-In Tariff Outside Services	A/C 921 (g)(h)	(92)	-	(92)	(138)	92	92		
12		Grand Total		\$ (799)	\$ (4,207)	\$ (5,006)	\$ (3,653)	\$ 1,491	\$ 425	\$ 943	\$ 123

Footnotes:

- (a) Source: HECO T-14 Update, p. 14.
(b) Crop research agreement with Hawaiian Agriculture Research Center. Also, see HECO T-14, pp. 37-39, and confidential HECO-WP-1407. Settlement (Exhibit 1, p.21) allowed recovery of Biofuel crop research as part of an ongoing level of R&D expense included in base rates.
(c) Biofuel testing of Kahe steam boiler #3. Also, see HECO T-14, pp. 41-48, and responses to CA-IR-163, CA-IR-164, CA-IR-464 & CA-IR-483. Settlement (Exhibit 1, p.21) allowed recovery of Biofuel co-firing project as part of an ongoing level of R&D expense included in base rates.
(d) Source: 2009 revised non-labor costs per CA-IR-178, Attachment 1. Also, see HECO T-8 (pp. 52-54), HECO T-14 (pp. 27-31), HECO T-14 Update (pp. 1-2 & 14), HECO T-8 Update (p. 5).
(e) AMI T&D Outside Services:

	2009 FCST	Amort. Period	Allowed	Removed
Regulatory Support - Legal	CA-IR-2 \$ 74,630	2	\$ 37,315	\$ (37,315)
Regulatory Support - Consultant	CA-IR-2 351,892	2	175,946	(175,946)
ITS Project Management Consultant	CA-IR-178 80,000	2	40,000	(40,000)
Total	<u>\$ 506,522</u>		<u>\$ 253,261</u>	<u>\$ (253,261)</u>

Settlement (Exhibit 1, p.20) provided for 2-year amortization of AMI legal, regulatory and outside consulting costs.

Source: HECO responses to CA-IR-2 (HECO T-8), Attachment 7B, p. 6; CA-IR-178, Attachment 1.

(f) AMI R&D Costs:

	2009 FCST	Amort. Period	Allowed	Removed
Vendor/Consultant (meter data management & IT support)	\$ 487,700	2	\$ 243,850	\$ (243,850)
Tower Gateway Base Station Lease	123,000		123,000	-
Total	<u>\$ 610,700</u>		<u>\$ 366,850</u>	<u>\$ (243,850)</u>

Settlement (Exhibit 1, p.21) provided for 2-year amortization of AMI outside services costs and allowed TGB lease cost as annually recurring.

Source: HECO responses to CA-IR-158 & CA-IR-440(d).

(g) Feed-In Tariff Outside Services:

	2009 FCST	HELCO/MECO	HECO	Amort. Period	Allowed	Removed
Regulatory Support - Legal	\$ 40,000	\$ 8,000	\$ 32,000	2	\$ 16,000	\$ (24,000)
Tariff Design & Policy - Consultant	123,000	24,600	98,400	2	49,200	(73,800)
Outside Engineering - Consultant	67,000	13,400	53,600	2	26,800	(40,200)
Total	<u>\$ 230,000</u>	<u>\$ 46,000</u>	<u>\$ 184,000</u>		<u>\$ 92,000</u>	<u>\$ (138,000)</u>

Settlement (Exhibit 1, pp.20-21) provided for 2-year amortization of Feed-in Tariff consultant costs allocated to HECO.

Source: HECO T-11 Update (pp. 6-7 & Attachment 2, Note D), HECO response to CA-IR-343 Allocation: HELCO & MECO (20%), HECO (80%).

- (h) The \$138,000 of Feed-in Tariff costs removed by the settlement includes \$46,000 allocated to HELCO and MECO. See Footnote (g).

(i) PV Host Program:

	2009 FCST	HELCO/MECO	HECO	Amort. Period	Allowed	Removed
Outside Services - Engineering System Integration	\$ 75,000	\$ 15,000	\$ 60,000	2	\$ 30,000	\$ (45,000)
Outside Services - Consulting Site Support	25,000	5,000	20,000	2	10,000	(15,000)
Outside Services - Consulting Program Design	75,000	15,000	60,000	2	30,000	(45,000)
Outside Services - Legal Regulatory Support	25,000	5,000	20,000	2	10,000	(15,000)
Total	<u>\$ 200,000</u>	<u>\$ 40,000</u>	<u>\$ 160,000</u>		<u>\$ 80,000</u>	<u>\$ (120,000)</u>

Settlement (Exhibit 1, p.20) provided for 2-year amortization of PV Host costs allocated to HECO.

Source: HECO T-7 Update (p. 45), HECO response to CA-IR-296.

Allocation: HELCO & MECO (20%), HECO (80%)